

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIAIN RE NAPSTER, INC. COPYRIGHT  
LITIGATION.No. MDL 00-1369 MHP  
C 99-5183 MHP**MEMORANDUM AND ORDER**

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The recording industry plaintiffs move for summary judgment against defendant Napster, Inc. (“Napster”) for willful contributory and vicarious copyright infringement. In response, Napster requests that pursuant to Federal Rule of Civil Procedure 56(f) the court stay any decision on the merits to allow for additional discovery. Napster’s 56(f) motion asks the court to determine whether additional discovery is necessary to decide if some of largest players in the music recording industry actually own the rights to the musical works for which they allege copyright infringement by Napster. The court is also asked to permit discovery to determine whether plaintiffs have misused their copyrights by attempting to control the market for the digital distribution of music. Having considered the arguments presented, and for the reasons set forth below, the court rules as follows.

**BACKGROUND**

This action is one of several copyright infringement actions against Napster, an Internet service that facilitates the downloading of MP3 music files. See In re Napster, MDL 00-1369 MHP. Because this court and the Ninth Circuit have discussed the Napster service at length in prior orders, and because the parties are familiar with the Napster system, the court will limit this background section to information relevant to the current motions.

1 A. Procedural History

2 On December 6, 1999, A&M Records and seventeen other record companies filed a  
3 complaint for contributory and vicarious copyright infringement against Napster. These eighteen  
4 parties can be collectively grouped into five major recording companies: BMG, Sony, EMI,  
5 Universal, and Warner. See A&M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896, 908 (N.D.  
6 Cal. 2000). Plaintiffs' complaint alleges that Napster knew of and failed to prevent its users'  
7 unauthorized reproduction and distribution of plaintiffs' copyrighted sound recordings. See Compl.  
8 ¶¶ 56-80. Plaintiffs claim ownership to a diverse catalog of artists including many of the industry's  
9 top-grossing artists from the last five decades. See Compl., Exhs. A & B.

10 This court granted plaintiffs' request for a preliminary injunction in July 2000 and prohibited  
11 Napster from "engaging in or facilitating others in copying, downloading, uploading, transmitting, or  
12 distributing plaintiffs' copyrighted works." 114 F. Supp. 2d at 927. Two days later, the Court of  
13 Appeals stayed the injunction. See A&M Records, Inc. v. Napster, Inc., 2000 WL 1055915, \*1 (9th  
14 Cir. July 28, 2000). In February 2001, the Ninth Circuit largely affirmed this court's findings of fact  
15 and grant of injunctive relief. See A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004 (9th Cir.  
16 2001). A modified preliminary injunction was entered on March 5, 2001. See A&M Records, Inc.  
17 v. Napster, Inc., 2001 WL 227083 (N.D. Cal. March 5, 2001). The court continued, with the aid of a  
18 technical expert, to monitor Napster's compliance with the preliminary injunction through August  
19 2001.

20 In July 2001, plaintiffs advised the court of their intent to file a summary judgment motion.  
21 Napster objected, contending that more discovery was needed. The court instructed Napster that any  
22 remaining discovery issues should be raised in the context of a Rule 56(f) motion as a request that  
23 the court stay summary judgment to allow for discovery. Napster ignored this instruction, sending  
24 letters to the court requesting further discovery. See Letter re Discovery Issues Concerning  
25 Copyright Ownership from Kathryn Fritz, counsel for Napster, to Chief District Judge Marilyn Hall  
26 Patel (August 16, 2001); Letter re Discovery Issues Relating to Napster's Defenses from Kathryn  
27 Fritz, counsel for Napster, to Chief District Judge Marilyn Hall Patel (August 16, 2001). One letter  
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1 addressed discovery requests regarding plaintiffs' ownership of the copyrighted works at issue and  
2 the other letter related to discovery necessary for Napster's misuse and fair use defenses. Napster  
3 later categorized these letters as motions to compel. See Def.'s Rule 56(f) Mot. at 8.

4 Plaintiffs filed their motion for summary judgment on liability and willfulness on July 27,  
5 2001. On September 10, 2001, Napster filed its opposition to plaintiffs' motion for summary  
6 judgment and a corresponding Rule 56(f) motion asking to stay summary judgment to allow for  
7 further discovery. A status conference to address discovery issues originally scheduled for  
8 September 11, 2001 was canceled and was not rescheduled. The court heard oral argument on  
9 plaintiffs' summary judgment motion and Napster's Rule 56(f) motion on October 10, 2001.

10 After oral argument on plaintiffs' and Napster's respective motions, the court ordered both  
11 parties to submit names for a Special Master to be appointed by the court to oversee possible  
12 discovery on the issue of ownership. See 10/15/01 Order. Subsequent to that order, the court  
13 granted leave to the Recording Artists Coalition ("RAC") to file an *amicus* brief addressing the issue  
14 of ownership and specifically, the work-for-hire doctrine. See 11/14/01 Order.

15 On January 16, 2002, the court held a status conference with Napster and plaintiffs. Also in  
16 attendance was Neil Boorstyn, the court-selected Special Master. The court ordered the parties to  
17 begin discovery on ownership and indicated its intent to issue an order allowing for discovery on  
18 copyright misuse and denying discovery as to fair use. The next day, the parties requested the court  
19 stay its rulings on these motions to permit time for them to resolve their disputes. The court granted  
20 the parties' request and stayed the litigation until February 17, 2002. The stay has now ended and  
21 the parties have advised the court that they are unable to resolve their disputes.

22 B. Plaintiffs' Entry into the Digital Distribution Market

23 Also relevant to this order are plaintiffs' attempts to enter the market for digital distribution  
24 of music. In mid-2001, plaintiffs announced the formation of two joint ventures, MusicNet and  
25 *pressplay*. The aim of these joint ventures is to provide platforms for the digital distribution of  
26 music. MusicNet is a joint venture between three of the five record company plaintiffs – EMI,

1 BMG, and Warner. MusicNet is also owned in part by RealNetworks (and possibly another entity).  
2 Pressplay is a venture between the other two plaintiffs – Sony and Universal.

3 In June 2001, Napster signed a licensing agreement with MusicNet, allowing Napster access  
4 to all of the copyrighted works licensed to MusicNet. See Barry Dec., Exh. 1. Prior to signing the  
5 MusicNet agreement, Napster was unable to obtain individual licenses from any of the recording  
6 company plaintiffs. Id. at ¶ 12. The MusicNet agreement explicitly limits Napster’s ability to  
7 obtain individual licenses from any of the five plaintiffs, including the non-MusicNet plaintiffs –  
8 Sony and Universal – until March 2002. Id. at Exh. 1. The agreement also allows MusicNet to  
9 terminate the agreement within ninety days, even after March 2002, if Napster licenses content from  
10 any of the five recording companies other than through MusicNet. Id. Additionally, the agreement  
11 mandates a separate pricing structure for *any* content that Napster licenses from anyone other than  
12 MusicNet. Id. Napster has only provided the court with the MusicNet agreement and the court has  
13 no other information as to how MusicNet operates or exactly what content it will offer and to whom.  
14 Similarly, because Napster has not signed a licensing agreement with *pressplay*, the court has before  
15 it only information culled from the public record which reveals little about *pressplay*’s intended  
16 operations.

## 17 18 LEGAL STANDARD

### 19 A. Motion for Summary Judgment

20 Summary judgment shall be granted when there is no genuine issue of material fact and the  
21 movant is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The moving party bears the  
22 initial burden of identifying those portions of the record that demonstrate the absence of a genuine  
23 issue of material fact. The burden then shifts to the nonmoving party to “go beyond the pleadings,  
24 and by [its] own affidavits, or by the ‘depositions, answers to interrogatories, or admissions on file,’  
25 designate ‘specific facts showing that there is a genuine issue for trial.’” Celotex Corp. v. Catrett,  
26 477 U.S. 317, 324 (1986) (citations omitted). A dispute about a material fact is genuine “if the  
27 evidence is such that a reasonable jury could return a verdict for the nonmoving party.” Anderson v.  
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1 Liberty Lobby, Inc., 477 U.S. 242, 248 (1986). The moving party discharges its burden by showing  
2 that the nonmoving party has not disclosed the existence of any "significant probative evidence  
3 tending to support the complaint." First Nat'l Bank v. Cities Serv. Co., 391 U.S. 253, 290 (1968).

4 B. Motion for Stay of Summary Judgment

5 Upon a showing by the party opposing a motion for summary judgment that it "cannot for  
6 reasons stated present by affidavit facts essential to justify the party's opposition," the court may  
7 deny or continue the motion for summary judgment in order to permit that party an opportunity to  
8 obtain necessary discovery. Fed. R. Civ. P. 56(f). "Ordinarily, summary judgment should not be  
9 granted when there are relevant facts remaining to be discovered, but the party seeking a continuance  
10 bears the burden to show what specific facts it hopes to discover that will raise an issue of material  
11 fact." Continental Mar. v. Pacific Coast Metal Trades, 817 F.2d 1391, 1395 (9th Cir. 1987).

12 A Rule 56(f) motion should be granted where the party opposing summary judgment makes a  
13 timely application that specifically identifies relevant information to be discovered, and there is some  
14 basis for believing that such information actually exists. Visa Int'l Serv. Ass'n v. Bankcard Holders,  
15 784 F.2d 1472, 1475 (9th Cir. 1986). Granting such a motion is particularly appropriate where the  
16 identified information is the subject of outstanding discovery requests. Id.

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18 DISCUSSION

19 Plaintiffs' motion for summary judgment asks that the court find Napster liable as a matter of  
20 law for both contributory and vicarious copyright infringement. Plaintiffs also move the court to rule  
21 as a matter of law that Napster's infringement of plaintiffs' copyrights was willful, entitling plaintiffs  
22 to increased statutory damages.

23 Napster opposes plaintiffs' motion on numerous grounds. As a threshold matter, Napster  
24 argues that summary judgment should be stayed pursuant to Federal Rule of Civil Procedure 56(f).  
25 Napster contends that it cannot properly oppose plaintiffs' motion without further discovery related  
26 to plaintiffs' claims of copyright ownership and Napster's fair use and copyright misuse defenses.

1 Second, Napster argues that even if it is not allowed further discovery, summary judgment should be  
2 denied because myriad issues remain in dispute.<sup>1</sup>

3 The court will now address the two threshold issues raised in Napster's Rule 56(f) motion  
4 which must be resolved before the court can consider the issue of Napster's liability: plaintiffs'  
5 ownership of the copyrights at issue and Napster's misuse defense. Finding that further discovery is  
6 necessary on both issues, the court grants Napster's 56(f) motion in part.<sup>2</sup>

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8 I. Ownership

9 In order to maintain an action for copyright infringement, plaintiffs must demonstrate that  
10 they own the copyrights for the works in question. In a strange turn of events, Napster now  
11 questions whether plaintiffs, who are responsible for at least 85% of all music sales, Noll Dec.  
12 (9/9/01) ¶ 20, actually own the rights to artists such as Elvis Presley, Nirvana, the Beatles, Jimi  
13 Hendrix, Michael Jackson, and, of course, the Grateful Dead.<sup>3</sup> These artists are among 213 whose  
14 works plaintiffs identify in their complaint ("Complaint Works") as being infringed by Napster. See  
15 Compl., Exhs. A & B.

16 Plaintiffs provide evidence of ownership for the sound recordings listed in Schedule A and  
17 Schedule B of plaintiffs' complaint. The Schedule A works are post-1972 works whose copyright  
18 protection is derived from federal statute. For these works, plaintiffs provide documentation in the  
19 form of copyright certificates or applications for certificates. See, e.g., McMullen Dec. (8/7/01),  
20 Exh. The Schedule B works are pre-1972 works, protected by state law. For these works,  
21 plaintiffs provide chain of title documentation to show the transfer of ownership rights from the  
22 respective artists to plaintiffs. See, e.g., id. at Exh. 5 (filed under seal).

23 Napster never actually argues that plaintiffs do not own the Complaint Works. Instead,  
24 Napster contends that it is not in a position to challenge plaintiffs' assertions of ownership because it  
25 has been denied crucial discovery. Napster points to a host of alleged deficiencies in plaintiffs'  
26 documentation that Napster cannot explore without additional discovery. Napster challenges  
27 plaintiffs' claims to authorship and the corresponding presumption of ownership; the evidentiary  
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1 value of plaintiffs' copyright applications; the court's jurisdiction over works for which no copyright  
2 certificate exists; and the sufficiency of plaintiffs' proof of title. These challenges to plaintiffs'  
3 evidence of ownership are best understood by categorizing the works accordingly: (1) Schedule A  
4 works for which there is a copyright certificate listing plaintiffs as authors under the "work for hire"  
5 doctrine; (2) Schedule A works for which the author is someone other than plaintiffs; (3) Schedule A  
6 works for which a copyright application is pending; (4) Schedule A works for which no application  
7 has been filed; and (5) Schedule B works.

8 A. Schedule A Works for Hire Listing Plaintiffs as Authors

9 A copyright certificate establishes prima facie evidence of the validity of a copyright and of  
10 the facts in the certificate. 17 U.S.C. § 410(c). The presumption is rebuttable, and does not  
11 definitively resolve the ownership issue. See Entm't Research Group, Inc. v. Genesis Creative  
12 Group, Inc., 122 F.3d 1211, 1217 (9th Cir. 1997); S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085-  
13 86 (9th Cir. 1989); Seiler v. Lucasfilm, Ltd., 808 F.2d 1316, 1321 (9th Cir. 1986). Plaintiffs  
14 produced copyright certificates for the post-1972 works listed in Schedule A of plaintiffs' complaint.  
15 See Cho Dec. (8/3/01), Exh. 1; McMullen Dec. (8/7/01), Exhs. 1, 2; Pariser Dec. (8/6/01), Exhs. 1,  
16 7; Stafford Dec. (8/2/01), Exhs. 1, 2; Vidich Dec. (8/1/01), Exh. 1.

17 Napster argues that the facial validity of the certificates is questionable at best and therefore  
18 justifies further discovery. Napster also contends that if discovery shows the certificates to be  
19 invalid, it is possible that plaintiffs do not have any ownership rights in the works. Plaintiffs respond  
20 that their certificates are valid because they own the works at issue regardless of the concerns raised  
21 by Napster. In order to evaluate the merits of the parties' arguments, the court will consider both  
22 bases upon which plaintiffs claim ownership: as authors and by assignment.

23 1. Authorship and Works for Hire

24 Napster attempts to rebut the copyright certificates' presumption of ownership by questioning  
25 plaintiffs' claims of authorship. In particular, Napster argues that 133 of 144 Schedule A works are  
26 incorrectly designated as "works for hire". A "work for hire" is created when a specific type of work  
27 is specially commissioned from the artist by the hiring party or when the artist is an employee of the  
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1 party claiming ownership. 17 U.S.C. § 101. The “work for hire” designation is legally significant  
2 because the employer or the hiring party is considered to be the author of the work and is listed as  
3 such on the copyright registration certificate. 17 U.S.C. § 201.

4 Generally, an author has greater rights than one who acquires a copyright through an  
5 assignment, including the right to terminate all transfers of ownership after 35 years. 17 U.S.C.  
6 § 203. This right is non-transferrable and can only be exercised by the author or his/her heirs. Id.  
7 The author’s right of termination is intended to counter the “unequal bargaining position of authors,  
8 resulting in part from the impossibility of determining a work’s value until it has been exploited.”  
9 H.R. Rep. No. 94-1476, at 5740 (1976). Because the record company plaintiffs list the copyrights as  
10 works for hire, they are considered to be the authors and do not have to face the prospect of artists  
11 terminating plaintiffs’ ownership rights after 35 years. The result is that plaintiffs effectively  
12 guarantee themselves 95 years of copyright ownership – a total of 60 additional years beyond what  
13 they would have if the artists were listed as the authors.<sup>4</sup>

## 14 2. Challenges to Authorship

15 As a threshold matter, Napster must have standing to challenge plaintiffs’ authorship of the  
16 works at issue. Plaintiffs cite a multitude of cases that they characterize as holding that a third party  
17 does not have standing to challenge the presumption of ownership created by a copyright certificate.  
18 See, e.g., Magnuson v. Video Yesteryear, 85 F.3d 1424 (9th Cir. 1996). In fact, these cases are more  
19 limited than plaintiffs suggest. The cases hold that a third party does not have standing to challenge  
20 the presumption of ownership when plaintiffs claim ownership by assignment. Id. However, the  
21 case law is largely silent as how to treat third-party standing in instances of ownership by authorship.  
22 Ultimately, because ownership arises either through assignment or authorship, this silence dooms  
23 plaintiffs’ argument. See 17 U.S.C. § 201. The third-party standing doctrine does not preclude this  
24 court from considering Napster’s argument that the Schedule A Works are not “works for hire.”

25 Napster mounts a two-fold challenge to plaintiffs’ claims of ownership and authorship under  
26 the “work for hire” doctrine. First, Napster contends that plaintiffs’ works cannot be “specially  
27 commissioned” works for hire under the plain reading of 17 U.S.C. § 101. “Works for hire” are  
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1 considered “specially commissioned” when (a) the work is specially ordered or commissioned; (b)  
2 the parties agree in writing in advance that work will be a “work for hire”; and (c) when the work fits  
3 within one of nine statutorily drawn categories. 17 U.S.C. § 201. Sound recordings are not one of  
4 the nine listed works. *Id.*<sup>5</sup> This glaring omission in the statutory requirements suggests that  
5 plaintiffs’ works cannot be “specially commissioned” works for hire.<sup>6</sup> Notably, the recording  
6 industry recently tried and failed to add sound recordings to the list of works covered by the  
7 “specially ordered or commissioned” prong of the “work for hire” provision in section 101.<sup>7</sup>

8 Plaintiffs argue that sound recordings do, in fact, fall within these nine categories. *See* Pls.’  
9 Response to Amicus Br. of Recording Artists Coalition (“RAC”) (filed 11/28/01) at 7-10. Because  
10 determination of this issue is beyond the scope of this order (and possibly prejudicial to the rights of  
11 recording artists, RAC Amicus Br. at 8), the court refrains from reaching the issue today, though it  
12 may be necessary to revisit it in the future.

13 Second, Napster challenges the other basis on which plaintiffs claim authorship. Napster  
14 argues that the absence of any evidence of an employment relationship between artists and plaintiffs  
15 precludes plaintiffs’ claim of authorship under that prong of the “work for hire” doctrine. *See, e.g.,*  
16 *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 751 (1989) (using common law  
17 agency principles to determine if an employment relationship exists). Plaintiffs admit that they have  
18 produced no contracts with artists to demonstrate an employment relationship, but contend that the  
19 copyright certificates and the corresponding rebuttable presumption of ownership satisfy their burden  
20 of proof. *See* 17 U.S.C. § 410(c).

21 Napster has raised serious questions as to the validity of plaintiffs’ claims of ownership as  
22 authors, bolstered by the arguments raised by *amicus curiae* RAC. In the absence of an alternative  
23 means of proving ownership, Napster’s arguments and accompanying discovery requests satisfy the  
24 requirements for a Rule 56(f) stay. *See Continental Mar. v. Pacific Coast Metal Trades*, 817 F.2d  
25 1391, 1395 (9th Cir. 1987). However, authorship is only one possible avenue through which  
26 plaintiffs can establish ownership. If plaintiffs can demonstrate that they own the works by  
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1 assignment, they will prevail on the issue of ownership and may demonstrate that additional  
2 discovery is either unwarranted or futile.

3           3.       Ownership by Assignment

4           Plaintiffs argue that even if the relevant Schedule A works are not works for hire, plaintiffs  
5 own the rights to the works by assignment. A problem arises because plaintiffs attempt to use their  
6 copyright certificates, which list the works as works for hire, to establish a presumption of ownership  
7 *either* by assignment or authorship.<sup>8</sup>

8           As discussed above, the standing doctrine does not preclude Napster from challenging  
9 plaintiffs' ownership under the "work for hire" doctrine. However, plaintiffs now argue that Napster  
10 lacks standing to challenge the statutory presumption where ownership is based on assignment. The  
11 reasoning behind this argument is that any purported dispute over ownership by assignment is  
12 between the plaintiffs and the individual who created the works. To support their argument,  
13 plaintiffs rely on a line of cases exemplified by Magnuson v. Video Yesteryear, 85 F.3d 1424 (9th  
14 Cir. 1996). See also Radio Television Espanola S.A. v. New World Entm't, Ltd., 183 F.3d 922, 929  
15 (9th Cir. 1999); Imperial Residential Design, Inc. v. Palms Dev. Group, Inc., 70 F.3d 96, 99 (11th  
16 Cir. 1995); Eden Toys, Inc. v. Florelee Undergarment Co., Inc., 697 F.2d 27, 36 (2d Cir. 1982) In  
17 Magnuson, plaintiff asserted ownership by assignment and presented documentation registered with  
18 the Copyright Office as proof of the assignment. 85 F.3d at 1429. Defendant in Magnuson  
19 attempted to overcome the presumption by arguing that despite the facial validity of the copyright  
20 certificate plaintiff failed to memorialize the assignment in writing as required by section 204(a). Id.  
21 The Magnuson court followed other courts in reasoning that where there is no argument between  
22 assignor and assignee, "it would be anomalous to permit a third party infringer to invoke [the writing  
23 requirement] against the licensee." Magnuson, 85 F.3d at 1428 (quoting Eden Toys, 697 F.2d at 36).

24           The instant case presents an entirely different factual scenario from Magnuson and its  
25 progeny. Those cases centered on plaintiffs' claims to ownership by assignment where no dispute  
26 existed between assignor and assignee. The copyright certificates in the present action list plaintiffs  
27 as *authors*, not owners by assignment. See, e.g., Cho Dec. (8/3/01), Exh. 1 (certificate for "Sheryl  
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Crow” by Sheryl Crow listing A&M Records, Inc. as author). Nor is Napster challenging plaintiffs’ failure to fulfill a statutory requirement or invoking a Statute of Frauds-like procedural rule to protect itself from the costs of its own wrongdoing. Instead, Napster is arguing that plaintiffs cannot simultaneously hide behind Magnuson to argue that Napster has no standing and continue to maintain that the works are “works for hire.” In order for plaintiffs to establish ownership, the works must be, as a matter of logic, either “works for hire” *or* assigned to plaintiffs.

Plaintiffs respond that the presumption of ownership applies regardless of which box is checked on the copyright certificate. But see RAC Amicus Br. at 8. It is a well-established principle that errors in plaintiffs’ copyright certificates do not automatically invalidate the certificates and their corresponding presumption of ownership. See 17 U.S.C. § 408(d) (allowing the filing of a supplementary registration to correct any errors); 2 David Nimmer & Melville B. Nimmer, Nimmer on Copyright § 7.20[A] (2001) (“Nimmer”) (supplemental filing will not supercede the prior registration; nor will the original be expunged or canceled). “Absent intent to defraud and prejudice, inaccuracies in copyright registration do not bar actions for infringement.” Harris v. Emus Records Corp., 734 F.2d 1329, 1335 (9th Cir. 1984). Napster has not alleged fraud nor does Napster contend that prejudice results from listing the works as works for hire. See Testa v. Janssen, 492 F. Supp. 198, 201 (W.D. Pa. 1980) (false representation of authorship on copyright certificate when ownership was through assignment did not warrant application of unclean hands). Unless Napster can show that plaintiffs defrauded the Copyright Office in a manner that prejudiced Napster, the alleged inconsistencies in plaintiffs’ certificates do not rebut the presumption of ownership.

Additionally, Napster asks the court look beyond the certificates despite any evidence that a single artist contests plaintiffs’ right to sue for infringement. See RAC Amicus Reply Br. at 2 (“[RAC] takes no position on the scope of Plaintiff’s [ownership] rights in these recordings – if any.”); Magnuson, 85 F.3d at 1428. In this peculiar factual scenario, with widespread publicity and legally sophisticated artists appearing as *amicus curiae*, the fact that RAC takes no position on plaintiffs’ ownership suggests that no such dispute exists (though RAC continues to dispute plaintiffs’ claims to authorship).

1 The above discussion does not relieve the court's concern that refusing to allow any  
2 discovery on the issue of ownership converts the presumption of ownership into an irrebuttable one.  
3 That said, this court will not permit Napster to engage in a "fishing expedition." The advantage of  
4 the current statutory scheme is that plaintiffs need not produce mounds of documents in order to  
5 maintain an infringement action. Napster admits that plaintiffs control 85% of all music sales, Noll  
6 Dec. ¶ 20, and the court finds it highly unlikely that plaintiffs have failed to secure ownership  
7 interests in the works that are the foundation of their business. However, the court is equally reticent  
8 to allow plaintiffs, merely because of the quantity of music they control, to railroad Napster into  
9 potentially billions of dollars in statutory damages without adequately proving ownership.<sup>9</sup> The  
10 resulting tension between these two concerns requires the court to balance Napster's request for  
11 further discovery with the likelihood that such discovery will have any impact on plaintiffs' claims of  
12 ownership.

13 Without reviewing the agreements between artists and plaintiffs, it is impossible to determine  
14 if there is any merit to Napster's arguments. For example, if a contract characterizes a work as a  
15 "work for hire", or in the alternative transfers all rights to plaintiffs, ownership of the work is  
16 probably established. See 1 William F. Patry, Copyright Law & Practice 380-81 n.89 (1994)  
17 ("[Artist/record company] contracts typically contain 'belt and suspenders' language transferring  
18 copyright in the event a work is found not [to] be a work made for hire."). If all of plaintiffs'  
19 contracts with artists (or a significant sampling thereof) are consistent in this regard, the court may  
20 find plaintiffs protected by the presumption of ownership despite inconsistencies in their copyright  
21 certificates. Consequently, the court orders plaintiffs to produce all documentation relevant to their  
22 ownership of the works listed as "works for hire." A Special Master appointed by the court will  
23 review the documentation and the court will order further discovery as necessary. The court  
24 specifically withholds any ruling on the "work for hire" issue, the scope of plaintiffs' rights, and the  
25 extent to which plaintiffs are protected by the presumption of ownership until further discovery is  
26 completed. If appropriate at a later point, the court will address the issues raised by the RAC's  
27 *amicus* brief and plaintiffs' responses thereto.  
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B. Schedule A Works Listing Author Other Than Plaintiffs

The above discussion does not address all of the works at issue. Some of the copyright certificates produced by plaintiffs are not “works for hire” and instead list a third party as author. Napster contends, and rightly so, that these certificates alone are insufficient to demonstrate ownership. The existence of a copyright certificate with someone else’s name on it does not vest anyone other than the author with rights to the work. In order to show ownership, plaintiffs need to produce chain of title from the listed author to themselves. Plaintiffs have done this for at least some of the Schedule A recordings. For example, the certificate for Michael Jackson’s “Thriller” lists Michael Jackson as the author. See Pariser Dec. (8/6/01), Exh. 1. The copyright claimant is listed as CBS, Inc. per agreement between author and owner. Id. Plaintiffs also provided documentation showing chain of title from CBS, Inc. to Sony. Id. at Exhs. 2 & 3 (the transfer of rights from CBS, Inc. to CBS Records, Inc. who merged with Sony, Inc.). For those certificates where the chain of title is insufficient, plaintiffs have not met their burden and must produce chain of title to demonstrate ownership.

C. Schedule A Works for Which an Application is Pending

Napster argues that the Schedule A works with pending registration applications are not entitled to the same rebuttable presumption as registered works. Napster cites 17 U.S.C. section 410(c) for this proposition, but apparently failed to read the rest of the statute. The very next subsection, 17 U.S.C. section 410(d), states that “[t]he effective date of a copyright registration is the day on which an application... [is] received in the Copyright Office.” Hence, works with pending registrations will be given the benefit of the presumption of ownership.

D. Schedule A Works for Which No Application Has Been Filed

A copyright registration is a jurisdictional prerequisite to an infringement action. 17 U.S.C. § 411. For those fifteen works for which plaintiffs have not yet filed an application, this court lacks subject matter jurisdiction. Id. This does not prevent plaintiffs from bringing suit over these recordings once they are registered. E.g., Sony, 464 U.S. at 493 n.44 (“[A]lthough an infringement action cannot be brought unless the work is registered, registration is not a condition of copyright protection. Copying an unregistered work still may be infringement.”) (citations omitted).

1 E. Schedule B Works

2 The Schedule B works are protected under state law. See, e.g., Self-Realization Fellowship  
3 Church v. Ananda Church of Self-Realization, 206 F.3d 1322, 1326 (9th Cir. 2000). As a result,  
4 there is no registration requirement as with the post-1972 Schedule A works. Plaintiffs have  
5 attempted to prove ownership of the Schedule B works by producing redacted contracts between the  
6 artists and plaintiffs. See, e.g., Pariser Dec. (8/6/01), Exh. 4 (Bruce Springsteen) (filed under seal).  
7 Many of the redactions make these contracts incomprehensible and a large number of the agreements  
8 reference earlier agreements that are not included. Id. Plaintiffs also have been supplementing their  
9 chain of title by submitting some of the redacted portions of the relevant agreements.

10 Napster argues plaintiffs cannot own the rights to the Schedule B Works because state law  
11 does not allow fixed works to be transferred. The argument is based on California Civil Code  
12 section 982 which says that *unfixed* sound recordings may be transferred. Cal. Civ. Code § 982.  
13 Napster reads this section to prohibit the transfer of fixed sound recordings. However, it is clear that  
14 section 982 is intended to fill a gap created by federal preemption and does not affect the  
15 transferability of fixed works. Id.; see also 2 Nimmer § 8C.03. Nor does Napster cite Civil Code  
16 section 980(a)(2) which provides that the “author of an original work of ownership consisting of a  
17 sound recording initially fixed prior to February 15, 1972 has an exclusive ownership therein.” Cal.  
18 Civ. Code § 980(a)(2). Those ownership rights can be assigned. See Self-Realization Fellowship  
19 Church, 206 F.3d at 1326. The provision to which Napster refers, section 982(a), provides  
20 *additional* rights to transfer unfixed works. See 2 Nimmer § 8C.03 n.20 (interpreting section 982(a)  
21 to preclude transfer “undoubtedly would subvert its intent... of giving added protection to [pre-1972]  
22 sound recordings.”)

23 Napster does have a legitimate argument that some of the agreements produced for the  
24 Schedule B Works are illegible, incomplete, or overly redacted. Since plaintiffs bear the burden of  
25 showing chain of title, they must provide Napster with all of the necessary documents, redacting only  
26 proprietary information irrelevant to the issue of ownership.

## II. Copyright Misuse

Napster argues that the court should deny summary judgment or stay the matter to allow for further discovery because plaintiffs are engaged in copyright misuse. Copyright misuse as a defense to an infringement action finds its origins in the equitable defense of unclean hands and is similar to the patent law defense of the same name. See Morton Salt Co. v. G.S. Suppiger, 314 U.S. 488 (1942). This court and the Ninth Circuit dismissed Napster's misuse defense at the preliminary injunction stage, noting that copyright misuse is rarely a defense to injunctive relief and that there was not enough evidence at that stage to support a finding of misuse. See A&M Records, 239 F.3d at 1026-27; 114 F. Supp. 2d at 923. Since those rulings, the factual and procedural landscape has changed significantly. The motion now before the court is for summary judgment, not preliminary injunctive relief. Additionally, the prior inapplicability of copyright misuse rested on the fact that none of the plaintiffs had granted licenses to Napster, let alone impermissibly restrictive ones. See A&M Records, 114 F. Supp. 2d at 924. The evidence now shows that plaintiffs have licensed their catalogs of works for digital distribution in what could be an overreaching manner. See, e.g., Barry Dec. (9/9/01) ¶13, Exh. 1. The evidence also suggests that plaintiffs' entry into the digital distribution market may run afoul of antitrust laws. See generally Noll Dec.

### A. The Development of the Copyright Misuse Defense

The legitimacy of copyright misuse as a valid defense to an infringement action was in question for some time. See Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 976 (4th Cir. 1990) (describing the history of the misuse doctrine). For years, courts shied away from applying the doctrine, either refusing to recognize the defense, or finding it inapplicable on the facts. Id. Recently, courts have displayed a greater willingness to find copyright misuse, employing two different, though interrelated approaches. The first approach requires a finding that plaintiff engaged in antitrust violations before the court will apply the doctrine of copyright misuse. See, e.g., Saturday Evening Post v. Rumbleseat Press, Inc., 816 F.2d 1191, 1200 (7th Cir. 1987).<sup>10</sup> The second approach, adopted by the Ninth Circuit, focuses on public policy and has been applied to a greater range of conduct than the antitrust approach. See Practice Mgmt. Info. Corp. v. American Med. Assoc., 121 F.3d 516 (9th Cir. 1997). See generally Brett Frischmann & Dan Moylan, The Evolving

1 Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software, 15  
2 Berkeley Tech. L.J. 865, 880-902 (Fall 2000) (comparing antitrust and public policy-based misuse).  
3 Under the “public policy” approach, copyright misuse exists when plaintiff expands the statutory  
4 copyright monopoly in order to gain control over areas outside the scope of the monopoly. See  
5 Practice Mgmt., 121 F.3d at 520; Lasercomb, 911 F.2d at 977-79 (copyright misuse “forbids the use  
6 of the copyright to secure an exclusive right or limited monopoly not granted by the Copyright  
7 Office”). The test is whether plaintiff’s use of his or her copyright violates the public policy  
8 embodied in the grant of a copyright, not whether the use is anti-competitive. See Practice Mgmt.,  
9 121 F.3d at 521. However, as a practical matter, this test is often difficult to apply and inevitably  
10 requires courts to rely on antitrust principles or language to some degree. See Lasercomb, 911 F.2d  
11 at 977 (noting courts’ “understandable” but misplaced reliance on antitrust principles).

12 The scope of the defense of copyright misuse has not been significantly tested in the Ninth  
13 Circuit. In fact, the court has been unable to find a single reported case that discusses beyond a mere  
14 citation the Ninth Circuit’s adoption of the copyright misuse defense in Practice Management. See,  
15 e.g., Sony Pictures Entm’t, Inc. v. Fireworks Entm’t Group, Inc., 156 F. Supp. 2d 1148, 1156 (C.D.  
16 Cal. 2001); Pollstar v. Gigmania Ltd., 170 F. Supp. 2d 974, 982 (E.D. Cal. 2000). Nor did this court  
17 or the Ninth Circuit devote any discussion to Practice Management in previous rulings. A&M  
18 Records, 239 F.3d at 1026-7; 114 F. Supp. 2d at 924. As a result, the doctrine of copyright misuse  
19 remains largely undeveloped, with little case law to aid this court in its inquiry.<sup>11</sup>

20 Lasercomb America, Inc. v. Reynolds

21 The Fourth Circuit was the first to explicitly recognize a copyright misuse defense,  
22 Lasercomb America Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990), though the Supreme Court  
23 previously acknowledged the possible existence of the defense. See Morton Salt Co. v. G. S.  
24 Suppiger, 314 U.S. 488, 494 (1942). Lasercomb brought an action against defendant Holiday Steel,  
25 alleging that Holiday Steel copied its die-making software and sold it under a different name.  
26 Lasercomb, 911 F.2d at 971-2. On appeal, Holiday Steel did not dispute copying Lasercomb’s  
27 software, but argued that Lasercomb misused its copyright by including a broad non-compete clause  
28 in its standard licensing agreement. Id. at 972. Lasercomb’s agreement forbade a licensee from



1 developing any kind of computer assisted die-making software. Id. at 973. The court held that  
2 Lasercomb's licensing agreement attempted to control any expression by Holiday Steel of the  
3 underlying idea embodied in Lasercomb's software. Id. at 979. Because the idea was outside the  
4 scope of the copyright monopoly, the court found that Lasercomb's licensing agreement constituted  
5 copyright misuse. Id.

6 Lasercomb devised the following test for copyright misuse. The critical question is not  
7 whether an antitrust violation occurred, but "whether the copyright is being used in a manner  
8 violative of the public policy embodied in the grant of a copyright." 911 F.2d at 978. Thus, a  
9 violation of antitrust law may be sufficient, but is not necessary, for copyright misuse. Id. at 978  
10 ("[A] misuse need not be a violation of antitrust law in order to comprise an equitable defense to  
11 copyright.")

## 12 2. Practice Management

13 In 1997, the Ninth Circuit followed the reasoning of the Fourth Circuit and explicitly adopted  
14 a defense of copyright misuse. Practice Mgmt. Info. Corp. v. American Med. Assoc., 121 F.3d 516  
15 (9th Cir. 1997). The American Medical Association ("AMA") licensed a copyrighted coding system  
16 to the Health Care Financing Administration ("HCFA"). Id. at 517-8. The agreement granted HCFA  
17 a royalty-free, non-exclusive license to use the AMA's coding system. Id. In return, HCFA  
18 promised not to use any other coding system and also promised to use its powers as a regulatory  
19 agency to require use of the AMA's system in programs administered by its agents. Id.

20 A separate dispute arose between Practice Management, the largest reseller of books of the  
21 AMA's coding system, and the AMA. Id. at 518. Practice Management argued in its action for  
22 declaratory relief that the AMA was misusing its copyrights because the licensing agreement  
23 between HCFA and the AMA was unduly restrictive. Id. The Ninth Circuit looked closely at the  
24 licensing agreement and sided with Practice Management. Id. at 521. In particular, the court held  
25 that the requirement that HCFA not use competing coding systems represented an expansion of the  
26 monopoly power of the AMA's copyright. Id. The court labeled this exclusivity clause the  
27 "controlling fact." Id. (copyright misuse is implicated by "the limitation imposed by the AMA  
28 licensing agreement on HCFA's rights to decide whether or not to use other forms as well").

1 The court did not investigate the extent of the AMA's market power or the actual effects on  
2 competition as it would have done in an antitrust analysis. Id. Instead, considering only the text of  
3 the agreement, the court merely noted the "apparent" adverse effects of the licensing agreement  
4 which "gave the AMA a substantial and unfair advantage over its competitors." Id.; see also Alcatel  
5 USA, Inc. v. DGI Technologies, Inc., 166 F.3d 772, 793-94 (5th Cir. 1999) (finding copyright misuse  
6 based on the text of the licensing agreement without proof of market power). The court reasoned  
7 that this use of a copyright to gain competitive advantage violates the public policy embodied in the  
8 grant of a copyright. Practice Mgmt., 121 F.3d at 521; see also Lasercomb, 911 F.2d at 978.

9 3. The Current State of Copyright Misuse

10 Lasercomb and Practice Management, along with other "public policy" cases, hold that  
11 copyright misuse exists when plaintiffs commit antitrust violations or enter unduly restrictive  
12 copyright licensing agreements. See also Alcatel, 166 F.3d at 793 (finding copyright misuse because  
13 the licensing agreement allowed defendant to "indirectly gain commercial control over products  
14 [defendant] does not have copyrighted"). It is also possible that others actions might violate the  
15 public policy behind the copyright laws. However, no courts has thus far articulated the boundaries  
16 of "unduly restrictive licensing" or when licensing or other conduct would violate the amorphous  
17 concept of public policy. See Lasercomb, 911 F.2d at 977.

18 Additional confusion arises because while courts have repeatedly stated that misuse is  
19 different from antitrust, they still rely on antitrust-like inquiries in determining what licensing  
20 agreements violate public policy.<sup>12</sup> Of the cases reviewed by the court, all mimic the *per se* rules of  
21 antitrust in holding that the relevant licensing agreements constitute copyright misuse because they  
22 are unduly restrictive *on their face*. See, e.g., Practice Mgmt., 121 F.3d at 521. No court has yet  
23 found it necessary to investigate the effects of a licensing provisions by adopting an analysis similar  
24 to the antitrust rule-of-reason approach but focusing instead on public policy. Cf. Lasercomb, 911  
25 F.2d at 977-78 (rejecting the district court's use of a rule of reason analysis). As a result, the "public  
26 policy" misuse case law only helps to identify the egregious cases of misuse – when it is obvious that  
27 the particular licensing provision is overreaching. Currently, there is no guidance as to how to  
28

1 approach the more sophisticated cases where the text of the licensing provision itself is not  
2 dispositive.

3 Fortunately, this court need not answer these questions today. Instead, the court focuses on  
4 these issues to guide the parties in the evidentiary development of the scope of plaintiffs' alleged  
5 misuse.

6 B. Napster's Allegations of Misuse

7 \_\_\_\_\_Napster alleges two bases for misuse. First, Napster contends that the licensing clauses in  
8 Napster's agreement with plaintiffs' joint venture, MusicNet, are unduly restrictive. In the  
9 alternative, Napster argues that even if that particular agreement is not unduly restrictive, plaintiffs'  
10 practices as they enter the market for the digital distribution of music are so anti-competitive as to  
11 give rise to a misuse defense.

12 1. The MusicNet Agreement

13 Napster contends that licensing requirements of plaintiffs' online venture, MusicNet, are  
14 unduly restrictive. MusicNet is a joint venture between three of the five record company plaintiffs  
15 (EMI, BMG, and Warner) to distribute digital music. This joint venture anticipates obtaining  
16 licenses from the other two major labels (Sony and Universal) to distribute their catalogs of  
17 copyrighted music. See Noll Dec. ¶ 49; Barry Dec. ¶ 12. While Napster was unable to secure  
18 licenses from any of the individual plaintiffs, Napster reached an agreement with MusicNet that  
19 allows Napster to distribute the music from the catalogs of the three participating MusicNet plaintiffs  
20 and another label that licenses its catalog to MusicNet. See Barry Dec. ¶ 14, Exh. 1.

21 Section 19.1 of the MusicNet agreement prevents Napster from entering into any licensing  
22 agreement with any individual plaintiffs until March 1, 2002. See Barry Dec., Exh. 1 at 15. The text  
23 of the agreement calls this space of time the "Initial Exclusivity Period." Id. The agreement also  
24 provides that even after March 2002 if Napster enters into any individual license with any of the  
25 major labels – i.e. the plaintiffs – including the MusicNet plaintiffs, MusicNet may terminate the  
26 agreement with ninety-day notice. Id. Additionally, section 6.3(a) lays out a pricing structure under  
27 which Napster will be charged higher fees if it fails to use MusicNet as its exclusive licensor for  
28 content. Id. at 7-8.<sup>13</sup>

1 It is unclear from the text of the agreement if the exclusivity provision operates to  
2 impermissibly extend plaintiffs' control beyond the scope of their copyright monopoly. In other  
3 misuse cases, the offending provision was exclusive and the "adverse effects of the licensing  
4 agreement [were] apparent." Practice Mgmt., 121 F.3d at 521 (provision prevented defendant from  
5 using any competitor's coding system); Lasercomb, 911 F.2d at 978 (defendant prohibited from  
6 producing any die-making software); Alcatel, 166 F.3d at 793-4 (software licensing provision  
7 effectively gave plaintiff control over uncopyrighted microprocessor cards). In contrast, the  
8 MusicNet provision is non-exclusive. Napster may obtain licenses from any of the record label  
9 plaintiffs, but may only do it through its agreement with MusicNet. See Barry Dec., Exh. 1 at 15.  
10 Despite this theoretical non-exclusivity, the provision effectively grants MusicNet control over  
11 which content Napster licenses. Napster's use of other music catalogs is predicated on MusicNet's  
12 securing an individual license to those catalogs. For example, under the MusicNet agreement,  
13 Napster no longer has the ability to obtain an individual license from Sony (a non-MusicNet  
14 plaintiff). Instead, Napster must rely on MusicNet to obtain a license to Sony's catalog. And, if  
15 MusicNet chooses not to obtain such a license, Napster is effectively prevented from using Sony's  
16 catalog. The result is an expansion of the powers of the three MusicNet plaintiffs' copyrights to  
17 cover the catalogs of the two non-MusicNet plaintiffs.

18 The MusicNet plaintiffs argue that this restriction is unimportant because they fully expect to  
19 obtain licenses from the other two majors recording companies.<sup>14</sup> That the restriction only applies  
20 until MusicNet obtains licenses from Sony and Universal (non-MusicNet plaintiffs) or until March  
21 2002 is irrelevant. See Practice Mgmt., 121 F.3d 516, 521 ("The controlling fact is that HCFA is  
22 prohibited from using any other coding system by virtue of the binding commitment... to use the  
23 AMA's copyrighted material exclusively."). The critical issue is that the agreement binds Napster to  
24 obtain licenses from MusicNet and not its competitors. Napster was caught in a position where its  
25 only options were to sign the agreement to gain access to the catalogs of the major record companies  
26 and thereby incur these restrictions in all their murkiness or to refuse to sign the agreement and have  
27 virtually no access to most commercially available music.  
28

1        Though the agreement is troubling on its face, too many questions remain unanswered for the  
2 court to effectively rule on the issue. It is unclear to what extent it is appropriate to impute the  
3 actions of MusicNet to plaintiffs as MusicNet is a joint venture and technically remains a separate  
4 entity from plaintiffs. See Barry Dec. ¶ 12. However, plaintiffs cannot hide behind the shell of a  
5 joint venture to protect themselves from misuse claims. The court views with great suspicion  
6 plaintiffs' claims of ignorance as to MusicNet's activities. Surely the three parties to MusicNet  
7 discussed their joint venture before embarking on it. MusicNet did not suddenly appear full blown  
8 from the head of a fictitious entity.<sup>15</sup> The evidence suggests that plaintiffs formed a joint venture to  
9 distribute digital music and simultaneously refused to enter into individual licenses with competitors,  
10 effectively requiring competitors to use MusicNet as their source for digital licensing. If this proves  
11 to be the case, the propriety of treating MusicNet as a separate entity is in question. Cf. Copperweld  
12 Corp. v. Independence Tube Corp., 467 U.S. 752, 768-69 (1984).

13        A few of plaintiff's arguments can be disposed of summarily. First, plaintiffs argue that  
14 Napster, as a party to the MusicNet agreement, cannot now challenge an agreement that it negotiated  
15 and subsequently signed. Practice Management explicitly holds that it is irrelevant who includes an  
16 exclusivity provision in an agreement. 121 F.3d at 521 (even if the exclusivity provision was  
17 included at HCFA's urging, it still prohibited HCFA from using competing coding systems). That  
18 Napster is both the party alleging misuse and a party to the offending agreement does not affect the  
19 court's analysis. See Lasercomb, 121 F.3d at 979 ("[T]he defense of misuse is available even if the  
20 defendants have not been injured by the misuse"; "The fact that appellants were not parties to one of  
21 Lasercomb's standard license agreements is inapposite to their copyright misuse defense."); Morton  
22 Salt, 314 U.S. at 494 ("It is the adverse effect upon the public interest of a successful infringement  
23 suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit,  
24 regardless of whether the particular defendant has suffered from the misuse of the patent.")<sup>16</sup>

25        Second, plaintiffs contend that because MusicNet is not yet in operation, there is no ongoing  
26 misuse. This argument fails. The issue is not whether MusicNet is yet in operation, but whether the  
27 exclusivity provision in the agreement is active. Because Napster is already bound by the agreement,  
28

1 the restriction on Napster's ability to negotiate for licenses with individual plaintiffs is *currently*  
2 restricted.

3 Third, plaintiffs contend that even if they are engaged in misuse, be it through restrictive  
4 licensing or antitrust violations, they should still be able to recover for infringement that occurred  
5 prior to the MusicNet agreement. Plaintiffs misunderstand the misuse doctrine. Misuse limits  
6 enforcement of rights, not remedies. See Practice Mgmt., 121 F.3d at 520 n.9 ("Copyright misuse  
7 does not invalidate a copyright, but precludes its enforcement during the period of misuse."). If  
8 plaintiffs are engaged in misuse, they cannot bring suit based on their rights until the misuse ends.  
9 See Lasercomb, 911 F.2d at 979 n.22 ("Lasercomb is free to bring a suit for infringement once it has  
10 purged itself of the misuse."); Morton Salt, 314 U.S. at 492 ("Equity may rightly withhold its  
11 assistance. . . by declining to entertain a suit for infringement, and should do so at least until it is  
12 made to appear that the improper practice has been abandoned and that the consequences of the  
13 misuse . . . have been dissipated."). The doctrine does not prevent plaintiffs from ultimately  
14 recovering for acts of infringement that occur during the period of misuse. The issue focuses on  
15 when plaintiffs can bring or pursue an action for infringement, not for which acts of infringement  
16 they can recover.

## 17 2. Antitrust Violations As Copyright Misuse

18 Napster does not confine its argument to the particular provision of the MusicNet licensing  
19 agreement. Napster also argues that plaintiffs' entry into the digital distribution market is rife with  
20 actual anti-competitive effects and potential antitrust concerns.

21 Antitrust violations can give rise to copyright misuse if those violations offend the public  
22 policy behind the copyright grant. See Lasercomb, 911 F.2d at 977 ("[A]ntitrust law is the statutory  
23 embodiment of that public policy"). However, generalized antitrust violations will not suffice.  
24 Napster must establish a "nexus between . . . alleged anti-competitive actions and [plaintiffs'] power  
25 over copyrighted material." Orth-O-Vision, Inc. v. Home Box Office, 474 F. Supp. 672, 686  
26 (S.D.N.Y. 1979).

27 Napster's arguments are based primarily on the declaration of Roger Noll, a Stanford  
28 professor who specializes in antitrust economics and the recording industry. See Noll Dec., Exh. 1.

1 Based on Dr. Noll's review of the MusicNet agreement and facts in the public record, Napster  
2 alleges that there are a host of anti-competitive behaviors by the plaintiffs that violate antitrust laws.  
3 See generally Noll Dec. Dr. Noll concludes that plaintiffs' joint ventures, MusicNet and *pressplay*,  
4 have anti-competitive features and facilitate collusive activity between plaintiffs. Id. at ¶¶ 66-83.  
5 Dr. Noll further asserts that plaintiffs engage in vertical foreclosure of the digital distribution market  
6 through retail price squeezes, raising costs through licensing provisions, refusals to deal, and  
7 exclusive dealing. Id. at ¶¶ 94-102. Dr. Noll also discusses myriad other behaviors that Napster  
8 alleges provide a sufficient nexus to the copyright monopoly to invoke the doctrine of copyright  
9 misuse. See generally id.

10 For example, Dr. Noll alleges that plaintiffs' joint ventures, MusicNet (Warner, EMI and  
11 BMG) and *pressplay* (Sony and Universal), allow plaintiffs to engage in retail price-coordination.  
12 See, Noll Dec. ¶ 70. Plaintiffs hotly dispute this allegation and noted at oral argument that both  
13 MusicNet and *pressplay* were designed with numerous protections (none of which are in the record)  
14 to avoid implicating antitrust concerns. The current record on the licensing practices of these joint  
15 ventures and their operations is negligible. However, even a naïf must realize that in forming and  
16 operating a joint venture, plaintiffs' representatives must necessarily meet and discuss pricing and  
17 licensing, raising the specter of possible antitrust violations. See Noll Dec. ¶ 77. These joint  
18 ventures bear the indicia of entities designed to allow plaintiffs to use their copyrights and extensive  
19 market power to dominate the market for digital music distribution. Cf. Broadcast Music, Inc. v.  
20 Columbia Broadcasting System, Inc., 441 U.S. 1, 24 (1979) (noting that CBS had a "real choice" as  
21 to whether it wanted to obtain individual licenses). Even on the undeveloped record before the court,  
22 these joint ventures look bad, sound bad and smell bad.

23 Of course, plaintiffs object strenuously to the Noll Declaration and have filed a lengthy  
24 separate evidentiary objection accusing Dr. Noll of everything from speculation to mistake to  
25 deliberate misrepresentation.<sup>17</sup> Plaintiffs argue that much of Dr. Noll's declaration refers to activities  
26 that have no relationship to plaintiffs' ownership of copyrights. For example, plaintiffs contend that  
27 it should not matter for the purposes of copyright misuse if plaintiffs engage in price fixing because  
28 the behavior is unrelated to the manner in which plaintiffs use their copyright monopoly. See Orth-

O-Vision, 474 F. Supp. at 686. However, there can be no doubt that price-fixing carries antitrust and public policy considerations that may be relevant to misuse. While further evidentiary development may sustain plaintiffs' argument, on the current record defendants have demonstrated a sufficient nexus to allow for further discovery.

Plaintiffs also contend that Dr. Noll merely speculates about potential antitrust violations. They point to his frequent use of "if", "maybe", "potentially" and "possibly" as a demonstration of the weakness of Napster's evidence of anti-competitive conduct. However, plaintiffs fail to address the fact that the speculative nature of Napster's argument is a direct result of Napster's lack of discovery on the issue of misuse. Finally, plaintiffs correctly contend that prior antitrust violations cannot give rise to a misuse defense. See Practice Mgmt., 121 F.3d at 520 n.2 ("Copyright misuse... precludes [] enforcement *during the period of misuse.*") (emphasis added). The court interprets any discussion of prior anti-competitive behavior as background to the industry and not as part of Napster's misuse defense.

Napster has raised serious questions with respect to possible copyright misuse, based on both the MusicNet agreement and plaintiffs' possible antitrust violations in their entry into digital music delivery. Nor does the court believe Napster's motion to be merely a fishing expedition to avoid summary judgment. The same conduct by plaintiffs that Napster alleges gives rise to copyright misuse is currently under investigation by the Department of Justice. See Pulgram Dec. (9/10/01), Exh. 29. For the time being, however, neither side has sufficiently developed the factual and legal bases for their arguments. The evidence presently before the court suggests that Napster needs further discovery in order to sufficiently oppose plaintiffs' motion for summary judgment. As such, the court grants Napster's Rule 56(f) motion with respect to its misuse defense. Once such discovery is completed, both sides will have an opportunity to rebrief the issue of misuse, incorporating any new discovery and focusing on legal issues that were not adequately briefed earlier.

### C. Unclean Hands

Plaintiffs argue that even if Napster makes a threshold showing that further discovery is necessary, Napster's unclean hands bar a misuse defense. Plaintiffs contend that as an equitable doctrine copyright misuse may not be asserted by one who asks the court to shelter them from the



1 repercussions of their unconscionable and unjust behavior. Napster responds that there is no  
2 “unclean hands” bar to copyright misuse, that its hands are not dirty, and that even if Napster has  
3 unclean hands, plaintiffs’ alleged misuse is so egregious that the court should allow Napster’s  
4 defense.

5 1. The Existence of an Unclean Hands Bar to Misuse

6 The court begins by noting that there is almost no case law discussing an unclean hands bar  
7 to copyright misuse. The only case that provides clear support for plaintiffs’ argument is Atari  
8 Games Corp. v. Nintendo of America, Inc., 975 F.2d 832, 846 (Fed. Cir. 1992) (“The Ninth Circuit  
9 has noted that doctrine of unclean hands can also preclude the defense of copyright misuse”) (citing  
10 Supermarket of Homes v. San Fernando Bd. of Realtors, 786 F.2d 1400, 1408 (9th Cir. 1986)).  
11 However, subsequent cases point out that Atari’s citation to Supermarket of Homes does not support  
12 the general proposition that unclean hands bar a misuse defense. See Alcatel, 166 F.3d at 795 (also  
13 finding unpersuasive a “smattering of other courts [that] have proposed [an unclean hands] bar to the  
14 use of an equitable defense”). Nor does Atari sufficiently explain why Atari’s inequitable conduct  
15 rendered inapplicable their claim of misuse. See Atari, 975 F.2d at 846. Despite these concerns,  
16 Atari is not entirely without support. One of the pre-eminent treatises on copyright law is in accord  
17 with plaintiffs’ argument. See 4 Nimmer §13.09[B] at 13-295 (copyright misuse defense “should be  
18 denied . . . when the defendant has been guilty of conduct more unconscionable and unworthy than  
19 the plaintiffs.”). However, plaintiffs do not develop their argument beyond these few citations and  
20 fail to convince the court that an unclean hands bar serves the general equitable principles of the  
21 misuse doctrine.

22 Napster, while failing to distinguish Atari, briefly argues that the court should be guided by  
23 the reasoning of Alcatel. 166 F.3d 790. The Fifth Circuit held that “the deceptive practices used by  
24 [defendant]... left it with very dirty mitts. Nevertheless, this finding is irrelevant given the particular  
25 posture of this case.” 166 F.3d at 794. Alcatel drew a distinction based on the type of relief sought.  
26 If plaintiffs seek equitable relief (as was the case in Alcatel), then “the defendant’s improper  
27 behavior serves as no bar to its equitable defenses.” Id. at 794 n. 92 (quoting United Cities Gas Co.  
28 v. Brock Exploration Co., 995 F. Supp. 1284, 1296 n.11 (D. Kan. 1998). If plaintiff “requests

1 exclusively legal relief, the defendant's unclean hands may preclude it from advancing equitable  
2 defenses." Id.

3 This reasoning squares with the principle "that closes the doors of a court of equity to one  
4 tainted with inequitable behavior or bad faith relative to the matter in which he seeks relief, however  
5 improper may have been the behavior of the defendant." Precision Instrument Mfg. Co. v.  
6 Automotive Maint. Mach. Co., 324 U.S. 806, 814 (1945). Plaintiffs used this court's open doors to  
7 obtain an injunction that eventually forced Napster to disable file-sharing entirely. Because plaintiffs  
8 have invoked this court's equitable powers (and it now appears that plaintiffs may have since sullied  
9 their hands with misuse), Napster should be entitled to assert equitable defenses. See Alcatel, 166  
10 F.3d at 794 n. 92; United Cities, 995 F. Supp. at 1296 n.11. Once plaintiffs used equity as a sword to  
11 prevent Napster's continued infringement, they lost the right to employ the unclean hands bar to  
12 shield themselves from the consequences of their own potentially inequitable behavior. See United  
13 Cities, 995. F. Supp. at 1284 (unclean hands is "not actually a defense, but a concept designed to  
14 protect the court from becoming a party to the transgressor's misconduct"). The situation would be  
15 markedly different had plaintiffs sought only legal relief. In such a case, Napster would be the party  
16 trying to bring equity into play and its unclean hands might bar equitable defenses.

17 This court finds Alcatel persuasive and notes its own concerns about applying an unclean  
18 hands bar *specifically* to misuse (as opposed to laches or some other equitable defense). Copyright  
19 misuse is distinguishable from other equitable defenses in that it focuses on harm to the public as  
20 well as harm to the court's integrity. See Precision Instrument, 324 U.S. at 815 ("[W]here a suit in  
21 equity concerns the public interest as well as the private interests of the litigants [unclean hands]  
22 assumes even wider and more significant proportions"). The court cannot fail to note that plaintiffs'  
23 alleged misuse harms many more parties than just Napster. See Morton Salt, 314 U.S. at 493  
24 ("Undoubtedly 'equity does not demand that its suitors shall have led blameless lives', but additional  
25 considerations must be taken into account where maintenance of the suit concerns the public interest  
26 as well as the private interests of suitors.") (citations omitted); Republic Molding Corp. v. B.W.  
27 Photo Utilities, 319 F.2d 347, 349-50 (9th Cir. 1963) ("In the interests of right and justice the court  
28 should not automatically condone the defendant's infractions because plaintiff is also blameworthy,

1 thereby leaving two wrongs unremedied and increasing the injury to the public.”). To refuse to allow  
2 Napster to maintain a misuse defense risks letting plaintiffs’ alleged misconduct and the resultant  
3 public harm continue unabated. See Morton Salt, 314 U.S. at 494; Republic Molding, 319 F.2d at  
4 350; cf. Precision Instrument, 324 U.S. at 815 (“For if an equity court properly uses the maxim to  
5 withhold its assistance . . . it not only prevents a wrongdoer from enjoying the fruits of his  
6 transgression but averts an injury to the public.”). If the ultimate concern of the misuse doctrine is to  
7 ensure public access to the fruits of creative energies, then unclean hands should not bar a misuse  
8 defense.<sup>18</sup>

9 2. Balancing the Equities

10 Assuming *arguendo* that an unclean hands bar exists, Napster should still be allowed  
11 discovery necessary to assert a misuse defense. The application of unclean hands requires the court  
12 to balance the respective positions of the parties. See, e.g., Republic Molding, 319 F.2d at 350;  
13 Tempo Music, Inc. v. International Good Music, Inc., 1964 U.S. Dist. LEXIS 7876 at \*6 (W.D.  
14 Wash. 1964) (even if plaintiffs had violated antitrust law, “their violations are so minimal and the  
15 violations of the defendants so unconscionable that plaintiffs should not be deprived of the right to  
16 maintain these actions for the deprivation of their property.”)

17 At oral argument, each side spent a great deal of energy trying to convince the court that the  
18 other side had dirtier hands. The evidence before the court supports the argument that Napster  
19 infringed plaintiffs’ copyrights for nearly two years, resulting in what could be millions of acts of  
20 unauthorized copying. Plaintiffs also contend that Napster continued to disregard plaintiffs’ rights  
21 even after the Ninth Circuit made it abundantly clear that Napster would probably be liable for  
22 contributory and vicarious infringement. See A&M Records, 239 F.3d at 1027; see also Data Gen.  
23 Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1170 n.43 (1st Cir. 1994) (violation of valid  
24 injunction against further infringement was “blatantly inequitable conduct” which could deprive  
25 infringer of the misuse defense even if it could still maintain affirmative antitrust claims); Pearl  
26 Music Co., Inc. v. Recording Indus. Assoc. of Am., Inc., 460 F. Supp. 1060, 1067-68 (C.D. Cal.  
27 1978) (plaintiff tape-pirates lacked standing to bring antitrust claims since their copyright-infringing  
28

1 business was illegal). With the possibility that Napster's infringement was willful, Napster's hands  
2 are abundantly dirty.<sup>19</sup>

3 Despite Napster's unclean hands, any balancing of equities must account for the fact that the  
4 Napster service is no longer functioning and thereby not infringing. Rofman Dec. (9/9/01) ¶ 13.  
5 When it became apparent to Napster that it could not comply with this court's injunction, it disabled  
6 the ability of its users to share music files. Id. Nor is the injury caused by Napster non-compensable.  
7 Plaintiffs are well-situated to recover for Napster's past behavior, and concerns about possible future  
8 harm are alleviated by this court's injunction (which remains in effect). Additionally, there are no  
9 allegations that the public is continuing to be harmed by Napster's behavior.

10 In contrast, plaintiffs' allegedly inequitable conduct is currently ongoing and the extent of the  
11 prospective harm is massive. If Napster is correct, plaintiffs are attempting the near monopolization  
12 of the digital distribution market. The resulting injury affects both Napster and the public interest.  
13 See Republic Molding, 319 F.2d at 349-50 ("[T]he extent of actual harm caused by conduct in  
14 question, either to defendant or to the public interest, is a highly relevant consideration.") The  
15 timing of the alleged inequitable conduct is also relevant. Plaintiffs began their entry into the digital  
16 distribution market only shortly before successfully forcing Napster to shut down all file-sharing.  
17 See Barry Dec. ¶ 14. This coincidence leaves the court reticent to bar further inquiry by Napster into  
18 plaintiffs' misuse.

19 While both parties appear to have "dirty mitts", the court cannot deny the public interest in  
20 allowing Napster's misuse defense. Ultimately, the decision whether to apply unclean hands rests in  
21 the court's discretion. See, e.g., Precision Instrument, 324 U.S. at 815; Washington Capitols  
22 Basketball Club, Inc. v. Barry, 419 F.2d 472, 478 (9th Cir. 1969). The court is not "bound by  
23 formula or restrained by any limitation that tends to trammel the free and just exercise of discretion."  
24 Precision Instrument, 324 U.S. at 815 (quoting Keystone Driller Co. v. General Excavator Co., 290  
25 U.S. 240, 245-46 (1933)). On the state of the current record, the court cannot determine where the  
26 greater harm and misconduct lies. At this time, the potential for public injury and the fact that  
27 Napster has shut its doors to infringement justifies allowing Napster to assert a misuse defense to  
28 obtain additional discovery.

CONCLUSION

It is HEREBY ORDERED that DEFENDANT’S Rule 56(f) motion is GRANTED IN PART. The court has already taken up with the parties discovery to be permitted and a method of proceeding with respect to the issue of ownership. The parties shall submit within one (1) week of this order a joint proposed order outlining the procedures for the Special Master. Plaintiffs shall provide both redacted and unredacted documents relating to ownership to Special Master Neil Boorstyn within two (2) weeks of the date of this order. With respect to misuse discovery and further ownership discovery, a status conference will be held on March 27, 2002 at 10 a.m. The parties shall submit a joint status conference statement and plan for discovery ten (10) days prior to the status conference.

IT IS SO ORDERED.

Dated:

MARILYN HALL PATEL  
Chief Judge  
United States District Court  
Northern District of California

DISTRICT  
COURT

## ENDNOTES

1. The issues for which Napster believes that there are disputed issues of fact are: plaintiffs' ownership of the copyrighted works at issue, copying of the works, fair use, the application of Sony, the extent of Napster's control over its system and its policing obligation, the extent of the Napster system's architecture, the sufficiency of plaintiffs' notices and Napster's removal of those works, application of the Digital Millennium Copyright Act, copyright misuse, and willfulness.
2. This order does not stay the entirety of plaintiffs' summary judgment motion. The court will reach a determination on the other issues raised by plaintiffs, but intends that necessary discovery commence on the threshold issues of ownership and misuse. The court denies Napster's request for further discovery related to Napster's fair use defense, an issue that will be discussed in a subsequent order.
3. To the extent referenced in this order, the declarations of Hank Barry and Roger Noll are unsealed.
4. This termination right is under the 1976 Copyright Act. 17 U.S.C. § 203. The 1909 Act – which applies to pre-1978 works – operates in a similar fashion, though the length of the term is different. 17 U.S.C. § 304.
5. The nine types of works are: a contribution to a collective work, part of a motion picture or other audiovisual work, a translation, a supplementary work, a compilation, an instructional text, a test, answer material for a test, or an atlas. 17 U.S.C. § 101(2). The statute also lists works that qualify as supplementary works.
6. Napster also challenges whether the other two elements of “specially commissioned” works are met. Because the court grants Napster's request for further discovery, the court does not reach these issues at this time.
7. The actual history of this attempted revision is intriguing. The recording industry succeeded in amending the definition of work made for hire to include sound recordings by claiming the change would be only a technical amendment. When the amendment went into effect in 2000, there was a tremendous outcry – the rest of the recording community did not see the amendment as a technical change. See, e.g., RAC Amicus Br. at Exh. 1. The change was repealed retroactively. P.L. No. 106-379 (enacted 2000). Today the definition of works made for hire includes the following text regarding this attempted amendment:
  - In determining whether any work is eligible to be considered a work made for hire under paragraph (2), neither the amendment contained in section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, nor the deletion of the words added by that amendment—
    - (A) shall be considered or otherwise given any legal significance, or
    - (B) shall be interpreted to indicate congressional approval or disapproval of, or acquiescence in, any judicial determination, by the courts or the Copyright

Office. Paragraph (2) shall be interpreted as if both section 2(a)(1) of the Work Made For Hire and Copyright Corrections Act of 2000 and section 1011(d) of the Intellectual Property and Communications Omnibus Reform Act of 1999, as enacted by section 1000(a)(9) of Public Law 106-113, were never enacted, and without regard to any inaction or awareness by the Congress at any time of any judicial determinations.  
17 U.S.C. § 101.

8. The court emphasizes that whatever determination is reached with respect to the presumption of ownership raised by plaintiffs' copyright certificates (and the corresponding presumption that all facts in the certificates are to be taken as true) only relates to the parties in this litigation and not to third parties (such as members of RAC) whose rights might otherwise be prejudiced.

9. While the present motion addresses only the 213 Complaint Works, this action involves the alleged infringement of thousands of plaintiffs' works. The maximum statutory damages are \$150,000 per act of infringement. See 17 U.S.C. § 504(c)(1).

10. This approach labels certain activities as *per se* copyright misuse and uses a rule of reason approach for others. See Frischmann & Moylan, The Evolving Common Law Doctrine of Copyright Misuse, 15 Berkeley Tech. L.J. 865, 898. For those activities that fall within the rule of reason test, the court first asks whether the restraint is within the scope of the copyright monopoly. Id. If it is, then the conduct is *per se* legal. Id. If not, the court then asks whether the activity as a whole promotes or restricts competition. Id. If the particular activity (e.g. licensing provision) restricts competition, then it is copyright misuse. Id.

11. In comparison, there is a substantial body of case law on patent misuse. See, e.g., Morton Salt Co. v. G.S. Suppiger, 314 U.S. 488 (1942). Patent misuse bases its analysis on antitrust principles and consequently is doctrinally analogous to antitrust-based copyright misuse. It is less helpful when employing the "public policy" analysis adopted by the Ninth Circuit.

12. In Saturday Evening Post v. Rumbleseat Press, Inc., 816 F.2d 1191, 1200 (7th Cir. 1987), Judge Posner reiterated the Seventh's Circuit's belief that courts should rely on antitrust principles in misuse claims:

'If misuse claims are not to be tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich with alternative concepts of monopolistic abuse; and it is rather late in the date to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty.' This point applies with even greater force to copyright misuse, where the danger of monopoly is less.

Id. (quoting USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 512 (7th Cir. 1982))

13. There are also allegations by Napster that the pricing structure of the MusicNet agreement prevents Napster from obtaining licenses from parties other than the five major record companies. See Barry Dec., Exh. 1.

1 14. Plaintiffs find themselves in a catch-22 because if MusicNet does not obtain these licenses, the  
2 licensing provision may be unduly restrictive, and if MusicNet does obtain licenses from the non-  
3 MusicNet plaintiffs, such cross-licensing implicates potential antitrust concerns. See Noll Dec.  
¶ 110.

4 15. Although there may be a triumvirate with seemingly Zeus-like powers, the analogy is certainly  
5 imperfect. Perhaps some of the thunder god's brethren present a more appropriate object for  
6 comparison.

7 16. Plaintiffs' argument would have merit if there was any evidence that Napster introduced and  
8 negotiated for the exclusivity provision. In that scenario, it would be unseemly to allow Napster to  
9 use the same provision as protection against infringement actions. Such a rule would create perverse  
10 incentives to artificially manufacture overreaching clauses as liability shields under the misuse  
11 doctrine. However, the evidence thus far shows that the relevant provisions were inserted at  
12 MusicNet's urging and not as an end-run around copyright laws by Napster. See Barry Dec. ¶ 19.

13 17. Because more discovery is necessary before reaching a final decision on Napster's misuse  
14 defense, the court does not rule on plaintiffs' objections at this time.

15 18. Because the court focuses on harm to the public as a relevant factor in whether an unclean hands  
16 bar to misuse exists, it logically follows that the distinction between whether plaintiffs are seeking  
17 legal or equitable relief is less significant than suggested by Alcatel. It is possible that the public  
18 interest implicated by a misuse defense might justify allowing the defense even where defendants  
19 have unclean hands and plaintiffs are seeking solely legal relief.

20 19. The relative inequity of Napster's conduct is tied to this court's determination of  
21 Napster's willfulness. Logically, the mere act of infringement is not enough for unclean hands  
22 because such a rule would bar *any* infringer, innocent or intentional, from asserting misuse. Unclean  
23 hands must result from some particularly reprehensible conduct. See, e.g., Atari, 975 F.2d at 846  
24 ("Atari lied to the Copyright Office in order to obtain the copyrighted [software] program."). As a  
25 general matter, the same conduct often supports a finding of willfulness.